

ARVON TOWNSHIP SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skaneateles, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arvon Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 2006 on our consideration of Arvon Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion analysis and budgetary comparison information on pages 6 through 10 and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Arvon Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Arvon Township School District. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 21, 2006



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2006, and have issued our report thereon dated August 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Arvon Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arvon Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

August 21, 2006

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2006**

This section of Arvon Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The Government-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund-the General Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole - Government-Wide Financial Statements:

The government-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets of the District are reported in the Statement of Net Assets of the Government-Wide Financial Statements.

Reporting the School District's Most Significant Funds - Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the School Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition.

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2006**

Summary of Net Assets in Governmental Activities

	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 365,365	\$ 354,782
Capital assets - Net of accumulated depreciation	161,564	136,239
Total Assets	<u>\$ 526,929</u>	<u>\$ 491,021</u>
Liabilities		
Current liabilities	\$ 11,212	\$ 20,114
Total Liabilities	<u>11,212</u>	<u>20,114</u>
Net Assets		
Invested in property and equipment - net of related debt	161,564	136,239
Unrestricted	354,153	334,668
Total net assets	<u>515,717</u>	<u>470,907</u>
Total Liabilities and Net Assets	<u>\$ 526,929</u>	<u>\$ 491,021</u>

Results of Operations in Governmental Activities

	<u>2006</u>	<u>2005</u>
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 1,346	\$ 1,245
Grants and contributions	41,273	46,322
General Revenue:		
Property taxes	276,777	256,690
Transfers	(260)	341
Other	23,477	23,954
Total Revenue	<u>342,613</u>	<u>328,552</u>
<u>Functions/Program Expenses</u>		
Instruction	176,455	166,845
Support services	111,308	95,993
School services	10,040	9,291
Total Expenses	<u>297,803</u>	<u>272,129</u>
Change in Net Assets	44,810	56,423
Net Assets - Beginning	470,907	414,484
Net Assets - Ending	<u>\$ 515,717</u>	<u>\$ 470,907</u>

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2006**

Reconciliation of change in net assets

	<u>2006</u>	<u>2005</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 19,485	\$ 26,352
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation.		
Depreciation expense	(7,649)	(6,164)
Capital outlay	<u>32,974</u>	<u>36,236</u>
Change in Net Assets of Governmental Activities	<u>\$ 44,810</u>	<u>\$ 56,424</u>

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of the change in fund balance of the governmental funds is as follows:

	<u>2006</u> <u>Fund Balance</u>	<u>2005</u> <u>Fund Balance</u>	<u>Percent Change in Fund</u> <u>Balance from Prior Year</u>
General	\$ 353,518	\$ 334,067	5.50%
Food Service	\$ 635	\$ 601	5.35%

General Fund - Minimal change.

Food Service Fund - Minimal change.

Arvon Township School District
Management's Discussion and Analysis
June 30, 2006

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2006, the original budget was adopted on June 23, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2006 in the general fund are as follows:

Changes from Original Budget to Final Budget

Local Sources:	\$6,207 increase due to higher interest rates, sale of three buses, and a surplus returned from SEG property casualty.
Federal Sources:	\$14,327 decrease due to a reduction in Title monies. In addition, Arvon Township School requested less REAP funds than originally budgeted.
Instruction:	A majority of the \$12,479 decrease was due to the reduction of REAP & Title revenue that was originally budgeted.
Supporting Services:	
Operation & Maintenance:	A decrease of \$17,670 due to the roof replacement costing less than anticipated.
Pupil Transportation:	An increase of \$11,003 due to rates for contracted transportation being raised.

Variances between Final Budget and Actual Amounts

Revenue:
The variance for local and federal sources was minimal.

Expenses:
The variance for instruction and supporting services was minimal.

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$32,974 for networking services, purchase of a new copier, and roof replacement. The net assets decreased by \$1,395 due to the disposal of an old copier.

The following is a summary of capital assets:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,775	0	0	3,775
Improvements other than building	120,585	25,808	0	146,393
Equipment and furniture	30,721	7,166	1,395	36,492
Total	<u>\$ 155,082</u>	<u>\$ 32,974</u>	<u>\$ 1,395</u>	<u>\$ 186,661</u>

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2006**

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Arvon Township School District levies 14 mills of local property taxes out of the 18 mills of non-homestead property taxes allowed. In 2005-2006, the amount levied for the school district was \$276,777. The district does not receive any state aid and therefore does not operate dependent upon the state foundation allowance.

The school serves 12 students in grades K-6. Middle and high school students are transported to L'Anse or Baraga Schools, the board charges a transportation fee per student to each school district.

Arvon Township School received \$41,232 in federal grants awarded on an annual basis. These grants include Title I, Title V, Title II, and REAP.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Arvon Township School District.

ARVON TOWNSHIP SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 345,131
Taxes receivable	19,031
Accounts receivable	<u>1,203</u>
TOTAL CURRENT ASSETS	<u>365,365</u>
NONCURRENT ASSETS:	
Capital assets	186,661
Less: accumulated depreciation	<u>(25,097)</u>
TOTAL NONCURRENT ASSETS	<u>161,564</u>
TOTAL ASSETS	<u>\$ 526,929</u>
LIABILITIES:	
Accounts payable	\$ 3,462
Accrued expenses	<u>7,750</u>
TOTAL LIABILITIES	<u>11,212</u>
NET ASSETS	
Invested in capital assets, net of related debt	161,564
Unreserved	<u>354,153</u>
TOTAL NET ASSETS	<u>515,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 526,929</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Government Activities:				
Instruction and instructional support	\$ 176,455	\$ -	\$ 38,256	\$ (138,199)
Support services	111,308	-	-	(111,308)
School service	10,040	1,346	3,017	(5,677)
Total Governmental Activities	\$ 297,803	\$ 1,346	\$ 41,273	(255,184)
General Revenues:				
Property taxes - general operations				276,777
Interest and investment earnings				7,041
Other				16,436
Transfers				(260)
Total general revenues, transfers, and special items				299,994
Change in Net Assets				44,810
Net Assets - Beginning				470,907
Net Assets - Ending				\$ 515,717

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2006

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 344,284	\$ 847	\$ 345,131
Taxes receivable	19,031	-	19,031
Accounts receivable	<u>1,203</u>	<u>-</u>	<u>1,203</u>
TOTAL ASSETS	<u>\$ 364,518</u>	<u>\$ 847</u>	<u>\$ 365,365</u>
LIABILITIES:			
Accounts payable	\$ 3,250	\$ 212	\$ 3,462
Accrued expenses	<u>7,750</u>	<u>-</u>	<u>7,750</u>
TOTAL LIABILITIES	<u>11,000</u>	<u>212</u>	<u>11,212</u>
FUND BALANCES:			
Unreserved	<u>353,518</u>	<u>635</u>	<u>354,153</u>
TOTAL FUND BALANCES	<u>353,518</u>	<u>635</u>	<u>354,153</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 364,518</u>	<u>\$ 847</u>	<u>365,365</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>161,564</u>
Net assets of governmental activities	<u>\$ 515,717</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Totals
Revenues			
Local sources	\$ 300,254	\$ 1,346	\$ 301,600
State sources	-	41	41
Federal sources	38,256	2,976	41,232
Total revenues	338,510	4,363	342,873
Expenditures			
Instruction	168,806	-	168,806
Supporting services	144,282	-	144,282
School service	-	10,040	10,040
Total expenditures	313,088	10,040	323,128
Excess (deficiency) of revenue over expenditures	25,422	(5,677)	19,745
Other Financing Sources (Uses)			
Operating transfers in	-	5,711	5,711
Operating transfers out	(5,711)	-	(5,711)
Other outgoing transfers	(260)	-	(260)
Total other financing sources (uses)	(5,971)	5,711	(260)
Net Change in Fund Balance	19,451	34	19,485
Fund Balances - Beginning of year	334,067	601	
Fund Balances - End of Year	\$ 353,518	\$ 635	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful activities, these costs are capitalized and allocated over their estimated useful lives as depreciation 25,325

Change in net assets of governmental activities \$ 44,810

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 375
TOTAL ASSETS	<u>\$ 375</u>
 LIABILITIES	
Gift fund	\$ 375
TOTAL LIABILITIES	<u>\$ 375</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Arvon Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY

Arvon Township Schools (the "District") is governed by the Arvon Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts – invested in capital assets, net of related debt and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities). Fiduciary funds are not included in the government-wide statements.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected Chassell Township and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	14.00

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE C - CASH

CASH DEPOSITS

At year-end, the School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds
Cash and cash equivalents	<u>\$ 345,131</u>	<u>\$ 375</u>

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$84,425 of the District's bank balance of \$367,238 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/05	Additions	Subtractions and Adjustments	Balance 06/30/06
Land	\$ 1	\$ 0	\$ 0	\$ 1
Fixed assets being depreciated:				
Building and additions	3,775	0	0	3,775
Improvements other than building	120,585	25,808	0	146,393
Equipment and furniture	30,721	7,166	1,395	36,492
Subtotal	155,081	32,974	1,395	186,660
Accumulated depreciation:				
Building and additions	3,775	0	0	3,775
Improvements other than building	5,471	2,830	1,395	6,906
Equipment and furniture	9,597	4,819	0	14,416
Subtotal	18,843	7,649	1,395	25,097
Net capital assets being depreciated	136,238	25,325	0	161,563
Net capital assets	<u>\$ 136,239</u>	<u>\$ 25,325</u>	<u>\$ 0</u>	<u>\$ 161,564</u>

Depreciation expense in the amount of \$7,649 was charged to instruction and instructional support for the District under Governmental Activities.

NOTE E - INTER-FUND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund transfers as of June 30, 2006 are as follows:

Fund	Transfer In	Fund	Transfer Out
School Service	<u>\$ 5,711</u>	General	<u>\$ 5,711</u>

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$18,661 which consisted of \$15,101 from the District and \$3,560 from employees electing the MIP option. These represent approximately 15.03% and 3.54% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$100,436. The District's total payroll was approximately \$100,436.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers.

The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2006 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2005 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE G - STATE FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 14 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2005-06 Foundation		\$	8,111.00
Less Local Support:			
Non-Homestead Tax Value	\$	19,696,186	
Multiplied by mills		14	
Total Local Support		<u>275,747</u>	
Divided by General Education K-12 membership		<u>13.00</u>	
Calculated Local Support			<u>(21,211.28)</u>
2005-06 Foundation Grant Allowance Per Pupil			<u><u>\$ (13,100.28)</u></u>

The School District is out of the formula, therefore, they receive no state aid.

NOTE H - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances as follows:

Total current payments per R7120	\$	19,435
REAP Grant		19,728
Food Commodities		<u>2,069</u>
Total Federal Financial Assistance	\$	<u><u>41,232</u></u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2006 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - CONTINGENT LIABILITIES

Risk Pool

Arvon Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Arvon Township School District joined together with other school districts currently operating a common risk management and insurance program. Arvon Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2006

NOTE I - CONTINGENT LIABILITIES (Continued)

Arvon Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments. The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the school district.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 295,802	\$ 302,009	\$ 300,254	\$ (1,755)
Federal sources	53,272	38,945	38,256	(689)
TOTAL REVENUE	349,074	340,954	338,510	(2,444)
EXPENDITURES:				
Instruction	181,548	169,068	168,806	262
Supporting services	150,857	143,751	144,282	(531)
TOTAL EXPENDITURES	332,405	312,819	313,088	(269)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,669	28,135	25,422	(2,713)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(8,129)	(5,711)	(5,711)	-
Other outgoing transfers	(750)	(200)	(260)	(60)
Total other financing sources (uses)	(8,879)	(5,911)	(5,971)	(60)
NET CHANGE IN FUND BALANCE	7,790	22,224	19,451	(2,773)
FUND BALANCE - BEGINNING OF YEAR	334,067	334,067	334,067	-
FUND BALANCE - END OF YEAR	\$ 341,857	\$ 356,291	\$ 353,518	\$ (632)

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Years Ended June 30, 2006 and 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes	\$ 277,608	\$ 276,777	\$ (831)	\$ 256,690
Other local sources:				
Investment revenue	7,965	7,041	(924)	4,023
Miscellaneous	16,436	16,436	-	19,932
Total other local sources	24,401	23,477	(924)	23,955
Total local sources	302,009	300,254	(1,755)	280,645
Federal sources:				
REAP	19,728	19,728	-	18,577
Title I	15,325	15,325	-	22,574
Title V	136	136	-	212
Class size reduction - Title IIA	3,067	3,067	-	4,183
Medicaid outreach	689	-	(689)	689
Total federal sources	38,945	38,256	(689)	46,235
TOTAL REVENUES	340,954	338,510	(2,444)	326,880
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	130,811	130,549	262	115,135
Added needs:				
Compensatory education	38,257	38,257	-	45,546
Total instruction	169,068	168,806	262	160,681
Supporting Services:				
Library	1,014	1,014	-	518
Board of education	12,067	11,656	411	11,842
Business-fiscal services	11,331	11,331	-	11,042
Operation and maintenance	50,816	51,740	(924)	54,912
Pupil transportation	68,523	68,541	(18)	54,239
Total supporting services	143,751	144,282	(531)	132,553
TOTAL EXPENDITURES	312,819	313,088	(269)	293,234
EXCESS OF REVENUES OVER EXPENDITURES	28,135	25,422	(2,713)	33,646

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Years Ended June 30, 2006 and 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer out	(5,711)	(5,711)	-	(7,622)
Other outgoing transfers	<u>(200)</u>	<u>(260)</u>	<u>(60)</u>	<u>(24)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,911</u>	<u>5,971</u>	<u>(60)</u>	<u>7,646</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 22,224</u>	19,451	<u>\$ (2,773)</u>	26,000
FUND BALANCE, BEGINNING OF YEAR		<u>334,067</u>		<u>308,067</u>
FUND BALANCE, END OF YEAR		<u>\$ 353,518</u>		<u>\$ 334,067</u>

ARVON TOWNSHIP SCHOOL DISTRICT
TRUST AND AGENCY
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
June 30, 2006

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS				
Cash	\$ 430	\$ 485	\$ 540	\$ 375
TOTAL ASSETS	<u>\$ 430</u>	<u>\$ 485</u>	<u>\$ 540</u>	<u>\$ 375</u>
LIABILITIES				
Due to gift fund	\$ 77	\$ 485	\$ 187	\$ 375
Due to Homer Elmlad memorial fund	353	0	353	0
TOTAL LIABILITIES	<u>\$ 430</u>	<u>\$ 485</u>	<u>\$ 540</u>	<u>\$ 375</u>



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Arvon Township School District
Skaneateles, Michigan

In planning and performing our audit of the financial statements of the Arvon Township School District for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 21, 2006, on the financial statements of the Arvon Township School District.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the general purpose financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administration staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 21, 2006